

Message Text

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ORIGIN NEA-06

INFO OCT-01 ISO-00 EB-03 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-10 INT-01

L-02 NSAE-00 NSC-07 OMB-01 PM-03 RSC-01 SAM-01 SCI-03

SP-02 SS-14 STR-01 TRSE-00 FRB-01 FEA-01 FTC-01 /073 R

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EB/ORF - MR. BOSWORTH (INFO)

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R 091708Z OCT 74

FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI

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E.O. 11652: N/A

TAGS: BDIS, ENRG, IN

SUBJECT: CALTEX PROBLEMS IN INDIA

REF: NEW DELHI 13040

1. E.J. LAVERY OF CALTEX CALLED ON DEPARTMENT OCTOBER 8 AND HANDED OVER COPY OF TEXT OF LETTER DELIVERED TO GOI MINISTER OF PETROLEUM AND CHEMICALS BOROOAH SEPTEMBER 30. LAVERY SAID CALTEX REPRESENTATIVE IN INDIA (LEVENHAGEN) HAD DELIVERED COPIES TO MINISTER OF FINANCE CHAVAN, SECRETARY DAVE OF MINISTRY OF PETROLEUM AND M.G. KAUL, SECRETARY IN MINISTRY OF FINANCE.
2. TEXT OF LETTER AS FOLLOWS:

OUR SHAREHOLDERS, CALTEX PETROLEUM CORPORATION, HAVE INSTRUCTED ME TO ADVISE YOU AS FOLLOWS:

BROUGHT TO THE ATTENTION OF GOVERNMENT THE URGENT AND IMPERATIVE NECESSITY TO INCREASE THE MARKET PRICES OF
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PETROLEUM PRODUCTS CONSISTENT WITH INCREASING CRUDE,

OPERATING AND FINANCING COSTS. CALTEX (INDIA) LTD., IN THEIR LETTER OF AUGUST 5, 1974, TO GOVERNMENT, POINTED OUT THE VARIOUS PROFITABILITY AND LIQUIDITY PROBLEMS, SUCH AS THE HUGE ACCUMULATED RECEIVABLES IN THE PRICE POOL ACCOUNT, THE ALARMING INCREASE IN THE BANK BORROWINGS AND THE

MOUNTING OPERATING LOSSES, THAT CONCERN CALTEX AND THE REMEDIAL STEPS REQUIRED TO PLACE CALTEX' OPERATIONS IN INDIA ON A VIABLE AND FINANCIALLY SOUND BASIS.

THE ABOVE POINTS WERE SYMPATHETICALLY RECEIVED BY GOVERNMENT AND SUITABLE AND PROMPT RELIEF MEASURES WERE RECOGNIZED AS NECESSARY AND ON SEPTEMBER 18, GOVERNMENT ANNOUNCED VARIOUS PRODUCT PRICE ADJUSTMENTS. HOWEVER, THE MANNER OF THE ALLOCATION OF THE PROCEEDS OF THESE ADJUSTMENTS WILL HAVE THE EFFECT OF ONLY PROGRESSIVELY REDUCING OUR TOTAL RECEIVABLES AFTER NETTING OUT ALL POOL ACCOUNTS BUT WILL NOT HAVE ANY MATERIAL EFFECT ON OUR DOWNSTREAM OPERATIONS. WE ESTIMATE THAT OUR 1974 OPERATIONS WILL INCUR A LOSS OF APPROXIMATELY \$2,000,000 AND WILL CONTINUE TO INCUR LOSSES UNLESS THE SITUATION IS IMMEDIATELY CORRECTED. UNDER THESE CIRCUMSTANCES, CALTEX STILL FINDS ITSELF IN A MOST UNACCEPTABLE FINANCIAL SITUATION WHICH COULD CAUSE SERIOUS PROBLEMS IN CALTEX' ABILITY TO CONTINUE ITS OPERATIONS IN INDIA.

WE WISH TO POINT OUT THAT THIS SITUATION WAS CREATED THROUGH NO FAULT OF CALTEX SINCE THE PRICES OF PETROLEUM PRODUCTS IN INDIA ARE CONTROLLED DIRECTLY BY GOVERNMENT. DESPITE THESE FINANCIALLY UNSATISFACTORY CONDITIONS, WE HAVE BEEN MAINTAINING UNINTERRUPTED CRUDE OIL SUPPLIES IN 1974 AT COMPETITIVE WORLD MARKET PRICES, WHICH, SO FAR, HAVE BEEN LOWER THAN CRUDE PRICES OBTAINABLE DIRECTLY BY GOVERNMENT. UNDER THE CIRCUMSTANCES DESCRIBED ABOVE, IT IS DIFFICULT TO UNDERSTAND WHY GOVERNMENT HAVE NOT TAKEN THE NECESSARY ACTION TO ACCEPT OUR INCREASED FINANCING/ OPERATING COST WHEN ALLOCATING THE PROCEEDS OF THE INCREASED PRODUCT PRICES AND TO ACCEPT OUR CRUDE PRICES.

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WE RECOGNIZE THAT IT IS GOVERNMENT'S INTENT TO EVENTUALLY ATTAIN 100 PERCENT CONTROL OF THE PRIVATE OIL COMPANIES' INTENT TO UNDULY DELAY THE IMPLEMENTATION OF FURTHER RELIEF MEASURES TO PUT OUR OPERATION ON A VIABLE AND FINANCIAL SOUND BASIS, WE WOULD SUGGEST THAT WE COMMENCE NEGOTIATIONS WITH GOVERNMENT AS EARLY AS POSSIBLE REGARDING THE GOVERNMENT'S ACQUISITION OF CALTEX (INDIA) LIMITED AND EVER, AND PENDING THE COMMENCEMENT OF THE ACQUISITION

NEGOTIATIONS AND THEIR ULTIMATE COMPLETION, WE RESPECTFULLY SUGGEST THAT GOVERNMENT ASSURE CALTEX ITS INTENTIONS TO KEEP THEM FINANCIALLY VIABLE IN INDIA, EFFECTIVE FROM JANUARY 1, 1974. IN VIEW OF THE IMPORTANCE WE ATTACH TO THIS MATTER WE WOULD URGENTLY AND RESPECTFULLY REQUEST GOVERNMENT'S EARLY ADVICE.

WE WOULD APPRECIATE YOUR KINDLY CONVEYING YOUR RESPONSE TO MR. F.H. LEVENHAGEN FOR RELAYING TO US."

3. LAVERY SAID CALTEX WANTED LETTER TO BE BROUGHT TO ATTENTION OF AMBASSADOR MOYNIHAN IN NEW DELHI AND APPROPRIATE OFFICIALS IN WASHINGTON. HE ASKED FOR EMBASSY ASSESSMENT OF LIKELIHOOD GOI WOULD PERMIT SECOND UPWARD ADJUSTMENT RETAIL PRICE OF PETROLEUM PRODUCTS IN INDIA, THUS ENABLING COMPANY OPERATIONS TO BECOME ECONOMICALLY VIABLE.

4. FINALLY, LAVERY REQUESTED ANY INFORMATION AVAILABLE AS RESULT OF DISCUSSIONS EMBASSY HAS HAD WITH GOI ON CALTEX PROBLEMS. LAVERY SAID AMBASSADOR MOYNIHAN UNDERTOOK RAISE THIS MATTER WITH GOI OFFICIALS AT HIGH LEVEL DURING MEETING HE HAD WITH LEVENHAGEN AUGUST 7.

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